

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1169-07
Bill No.: HCS for HB 517, 94, 149, 150, & 342
Subject: Elderly; Property, Real and Personal; State Tax Commission; Taxation and Revenue - General; Taxation and Revenue - Property
Type: Original
Date: March 4, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue *	\$0	\$0	(Unknown)
Total Estimated Net Effect on General Revenue Fund *	\$0	\$0	(Unknown)

*(Unknown) expected to exceed \$100,000 per year. Subject to appropriation; does not include possible costs to fully fund Foundation Formula.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Blind Pension	\$0	\$0	\$0 to (\$7,079)
Senior Rx	\$8,550,000	\$14,650,000	\$15,400,000
Total Estimated Net Effect on Other State Funds	\$8,550,000	\$14,650,000	\$15,392,291 to \$15,400,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 18 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government *	\$0	\$0	(Unknown)

* Expected to exceed \$100,000 per year.

FISCAL ANALYSIS

ASSUMPTION

Missouri Homestead Preservation Act

Officials from the **Office of the Secretary of State** assume this bill would create the Missouri Homestead Preservation Act. The State Tax Commission would promulgate rules to enact this legislation. Based on experience with other divisions, the rules, regulations, and forms issued by the State Tax Commission could require as many as 10 pages in the Code of State Regulations and half again as many pages in the Missouri Register because cost statements, fiscal notes and the like are not repeated in Code. These costs are estimated. The estimated cost of a page in the Register is \$23 and the estimated cost of a page in the Code is \$27. The actual cost could be more or less than the numbers given. The impact of the legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.
 ((10x\$27)+(15x\$23)=\$615)

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In response to a previous version of this proposal, officials from the **Cole County Assessor's Office** assumed there would be no revenues or savings to the Cole County Assessor's office from this proposal. Officials from the Cole County Assessor's Office also assume the office will incur one time programming change costs estimated at \$2000 for the year 2004.

The Assessor's office would have to maintain a separate accounting of homestead properties and this would require additional personnel time; the Cole County Assessor's office is understaffed and no additional requirements can be placed on the existing staff without sacrificing some other function of the office. It is estimated a quarter time person would be needed to maintain and implement this program on an ongoing basis at a yearly expense of \$6000 per year, starting in 2004.

Furthermore, there is vague language concerning the responsibility of the counties as it relates to supplying the State Tax Commission and/or the State Auditor with information concerning the process of collecting, reporting and submitting data stating revenue losses by the taxing jurisdictions. These reporting requirements would require work on the part of the Assessor, the Collector, and the Clerk, at a minimum. There is no funding in the bill for the extra duties that may be assigned and, with no other information available, a \$12,000 per year estimate for this item seems appropriate.

It is estimated that persons over 65 make up 15% of the total county population. Of those who are of ownership age (18 years +), persons over 65 make up 20% of the potential owners in the county. It is assumed that a greater percentage of senior citizens own property than those under 25 years of age, and overall it is estimated that owners over 65 own 35% of the residential property in Cole County. It is further, and lastly, estimated that 85% of those over age 65 fall within the income limits set by this bill (less than \$75,000 annually). Estimates are on the high end so as not to underestimate.

There would be no loss in 2004 as new construction and improvements would still be added pursuant to existing law. For 2005, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss to the taxing jurisdictions caused by this bill would be approximately \$612,000.

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ASSUMPTION (continued)

Officials from the Cole County Assessor's Office assumed there would be no loss in 2006, as new construction and improvements would still be added pursuant to existing law.

The Cole County Assessor's Office estimated that no losses would be made up to political subdivisions in the year 2005 due to the provisions under No. 6, considering that the number of sales of homestead properties would be so minimal at that point in time that any substantial effect would be unlikely. The proposal does not guarantee that political subdivisions would ever be reimbursed for losses listed above, only granting the General Assembly the option of appropriating monies. Also, it would be nearly impossible to estimate how many sales of homestead properties would occur in any given year.

The Assessor's work load would not change as all properties under this bill still need to be inspected during physical property review for additions, alterations, and/or deletions, including non-reassessment years. The work load of the Assessor would actually increase due to administrative cost of implementing this program in the Assessor's office.

The Assessor does not have enough information to determine the impact of Item 3 on page 1 concerning the MO Property Tax Credit program as it pertains to Cole County. Logically, the MO Property Tax Credit program is funded with such low income limits, and does not require property ownership, that those who utilize the program now would probably continue to do so in the future. Likewise, it seems logical that those not now utilizing the Property Tax Credit program would utilize the Homestead freeze; this latter group assumed to make up the largest portion of those over 65, and assumed to not currently qualify for the Property Tax Credit program.

Oversight assumes there would be significant but unknown revenues to the county assessment funds from the enrollment fees, since Oversight does not have any way to estimate the number of persons who would enroll in the program. Oversight also assumes there would be significant but unknown costs to the county assessors resulting from this proposal; however, the \$15 per parcel enrollment fee should adequately reimburse those additional costs in most counties.

Oversight assumes there would be additional costs to county clerks and to officials of other political subdivisions, and has included these in the estimate of local fiscal impact.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Department of Revenue** (DOR) assumed this proposal would create the Missouri Homestead Preservation Act. Anyone claiming a homestead exemption would not be eligible for the property tax credit, and anyone claiming a property tax credit is ineligible for the homestead exemption. The department will provide a list of taxpayers claiming a property tax credit.

The department should also receive a list of taxpayers claiming the homestead exemption, so that it can be run against the tax records. DOR assumed this would be done with existing resources, and the Department deferred to the State Tax Commission or Budget and Planning for an estimated revenue impact.

Officials from the **Office of Administration, Division of Budget and Planning**, assume the proposal would result in unknown decrease to the state's general revenue fund. The proposed legislation should not result in additional costs or savings to the Division of Budget and Planning.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would prohibit the assessed value of residential property owned by a person at least 65 years of age or older, from increasing by more than 5 percent during any tax-year reassessment cycle. This will inhibit the assessed value of the property from keeping pace with the local economy on property sales and may result in less local revenue for taxing jurisdictions including school districts.

Freezing the value of some residential property may result in less total reassessment value increase for the taxing jurisdiction. The reduced increase in total assessed valuation may result in no reduction in property tax rates that otherwise might occur per Article X of the Constitution.

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ASSUMPTION (continued)

DESE assumes that while the proposal does not reference the state school aid foundation formula, non-hold harmless districts (districts on the formula) could potentially recover the lost local revenues through the state aid formula rather than a separate appropriation if the appropriation for the formula would be sufficient to provide a proration factor no less than 1.00. The local deductions (Line 2) in the foundation formula would not increase as much as current law provides since the assessed valuation for the district will not increase as much as it would without the exemption, thereby increasing the cost to fund the state foundation formula at a proration factor of no less than 1.00. If the formula is not funded at the 1.00 level, the school districts would need a separate payment to replace the lost revenue due to the homestead exemption.

Hold harmless districts would experience a decrease in local revenue unless the General Assembly appropriates sufficient funds to compensate for the lost revenue even if the foundation formula is funded at the 1.00 level. The lowered assessment would in three years start to reduce the increase in the state guaranteed tax base and the increased formula cost may be zeroed out after the third year for any given year's assessed value. A reduced guaranteed tax base reduces the inflationary adjustment needed in the formula for districts to fund inflationary increases of its education and operational expenses.

DESE does not have data available to estimate the amount of fiscal impact at the state or local level

Oversight assumes the Foundation Formula and other school finance issues, if any, would be addressed through the appropriation process.

Officials from the **State Tax Commission** (Commission) assume this proposal would create the Missouri Homestead Preservation Act. The proposal would require the Commission to promulgate rules and regulations. The Commission would assume this additional responsibility of researching and drafting such regulations with existing staff.

ASSUMPTION (continued)

The Commission assumes residential Property is reassessed in odd-numbered years. Calendar year 2003 is a reassessment year with minimal assessed valuation changes to the residential property in following year (2004). Although this legislation will be effective on January 1, 2004, we are assuming that the impact of this proposal would not be realized until the next reassessment year occurring in calendar year 2005 with the collections occurring in Fiscal Year 2006. Furthermore this legislation provides that the age and years of residence shall be determined as of January first of each odd-numbered year and shall be provided by affidavit by such date to the county assessor. An enrollment of \$15.00 would be paid each reassessment cycle by the person claiming a homestead exemption and would be deposited in the assessment fund.

The Commission also assumes the 2002 assessment valuation for residential property is 33.1 billion dollars, and a seven percent (7%) increase in the assessed valuation in 2003 would result in an additional 2.3 billion dollars in assessed valuation. Therefore, the Commission estimates the assessed valuation for residential property in 2003 will be 34.5 billion dollars. As there are minimal improvements to residential property in an even-number year, the Commission assumes assessed valuation for 2004 would again be 35.4 billion dollars. In 2005, the next reassessment year, the Commission assumes there would be a loss of revenue as a result of this proposal.

According to the 2000 census information, 70.3% of the housing units are owner occupied with 10.3% of the householders 65 and older. The commission understands that 46% of the property owners over 65 years of age have a household combined adjusted gross income of less than \$39,000 per year which is the maximum base amount in calendar year 2003. The Commission assumes that in each succeeding calendar year the sum of the previous year may increase in \$100 increments by the same percentage as the increase in the general price level as measured by the CPI.

Projected Residential Assessment Valuation for Calendar Year 2003 is \$35,400,000,000.

\$35.4 Billion x 70.3% (residential property owner occupied) \$24.9 Billion

\$24.9 Billion x 10.3% (residential property owner occupied over 65) \$2.5 Billion

\$2,564,819,561 (65 and older, owner occupied)

\$2,564,819,561 x 46% (65 and older, income less than \$39,000) \$1,179,816,988.

ASSUMPTION (continued)

The State Tax Commission assumes the average assessed valuation would increase approximately seven percent (7%) each reassessment year. This proposed legislation caps the assessed valuation for the homestead exemption to five percent (5%) resulting in a two percent (2%) loss in assessed valuation.

$\$1,179,816,988 \times 2\% \times \$6 \text{ per hundred average state tax rate} = \$1,415,780.$

NET EFFECT - POTENTIAL LOSS TO LOCAL GOVERNMENTS OF \$1,415,780.

This legislation states that any person claiming the newly created homestead exemption would not be eligible to file a claim for the property tax credit; or if the person desires to file a claim for the property tax credit, they may not claim the homestead exemption. If the person desires to claim the homestead exemption instead of the property tax credit, there could be a positive fiscal impact to the General Revenue and Blind Pension Funds. However, we do not have any information available on how many owners will choose the homestead exemption or the property tax credit, therefore, we are unable to project any revenue gain.

Oversight assumes an unknown number or percentage of eligible property owners would enroll in the program created by this proposal. Further, Oversight assumes that actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. Reducing the increase in assessed valuation on certain individual parcels would in turn reduce the tax rate rollback required. Oversight assumes that net losses to political subdivisions from this provision, as compared to current law are unknown but would exceed \$100,000 per year.

This proposal would become effective January 1, 2004, for taxes to be collected in FY 2005. Oversight assumes the number of property owners enrolling in the program, and the related enrollment fees and administrative costs to the taxing authorities, would be insignificant until 2005 (FY 2006) since 2004 is not a reassessment year. Oversight also assumes the first appropriations for replacement of lost local tax revenues would be provided in FY 2006.

ASSUMPTION (continued)

Oversight assumes that the impact of requiring taxpayers to choose between the Homestead Tax Exemption and the Missouri "Circuit Breaker" property tax credit is unknown, but could be significant. In addition, Oversight assumes the Homestead Tax Exemption and resulting reimbursement to taxing authorities would be greater than the property tax credit reduction because the property tax credit is computed using more restrictive income limitations. A reduction in property tax credits claimed would partially offset the General Revenue Fund cost of reimbursing lost tax revenues to the taxing authorities; however, it would increase reported state personal income tax revenues.

Oversight assumes there would be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions, and has calculated a range of lost revenue from \$0 to \$7,079.

This proposal could affect total state revenues.

In response to a previous version of this proposal, officials from the **City of Springfield** assumed this proposal would result in a negative fiscal impact to their city of \$308,000 over a five-year period, through reductions in revenues attributed to the limitation on increased assessments.

Senior Rx Program Changes

Officials from the **Department of Social Services** assume this proposal would have no fiscal impact to their organization.

In response to a previous version of this proposal, officials from the **Department of Health** (DOH) assumed this proposal, over time, would increase participation by generic drug manufacturers in the Missouri Senior Rx program. The state currently requires generic manufacturers to pay the program a 15% rebate on their drugs that are utilized by the program participants while the national trend (including the Missouri Medicaid program) is 11%.

William M. Mercer, Inc. provided the DOH with an estimated cost savings associated with a reduction in the generic rebate percentage. DOH states that the current rebate contracts with generic drug companies expire on either 5-31-03 or 6-30-03. DOH states many of the generic companies have notified the program they will withdraw from the program at the end of this contract period if the rebate percentage for generic companies is not reduced to 11%. Therefore, the assumption made by Mercer, Inc. and DOH is that if the rebate reduction for generic

companies is not passed, generic companies will withdraw from the program, thus making the program a brand name drug only program for FY 04 and beyond. DOH and Mercer also assume

ASSUMPTION (continued)

the primary factor driving the estimated savings in total program costs is the increase in the average cost of a prescription resulting from only brand name drugs being available. By removing the generic medications from the program, Mercer, Inc estimated the average cost of the prescription will increase from \$74 to \$88 in FY 04; from \$80 to \$95 in FY 05; and from \$86 to \$102 in FY 06.

ASSUMPTION (continued)

DOH assumptions in calculating cost savings:

Population -

- Estimates for the total number of seniors in Missouri were based on the 1990 and 2000 census projected forward through SFY06.
- The total senior population in Missouri grows by an average of 3% per year.
- Actual enrollment in SFY03 was 22,000. Estimated enrollment was assumed to be 40,100 in SFY04; 67,000 in FY05; and 73,700 in SFY06.

Claim Costs/Trends/Financial Analysis -

- Discounts are legislated at 10.43% of AWP (average wholesale price) for brand and 20% of AWP for generic drugs.
- Rebates are provided at 15% of AMP (average manufacturer's price) for brand and generic drugs in SFY03.
- Rebates are provided at 15% of AMP for brand drugs and 11% of AMP for generic drugs in SFY04, SFY05 and SFY06.
- Generic drug manufacturers will be willing to participate in the program if the rebate amount is reduced from 15% to 11%.
- There is a 6 month lag in rebate payments.
- There is a dispensing fee of \$4.09 per prescription.
- The projected yearly number of scripts = 40 scripts per participant per year in FY03 (program benefits will cover 30 scripts per participant per year)
- The projected yearly number of scripts = 43 scripts per participant per year in FY04 (program benefits will cover 34 scripts per participant per year)

ASSUMPTION (continued)

The number of scripts per participant per year is trended at 8% to SFY05 and 7.5% to SFY06.

- The projected average cost per script \$69 in FY03; and \$74 in FY04 if the legislation passes, or \$88 if the legislation does not pass (before discounts & rebates)
- The average cost per script is trended at 8% to SFY05 and 7.5% to SFY06.

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Program Costs	Without the Legislation	With the Legislation	Net Increase or (Decrease) in Costs
FY2003			
Administrative Expenses	\$6.0 million	\$6.10 million	None
State Portion of Costs before Rebates	\$30.0 million	\$30.00 million	None
Estimated Rebates	\$2.6 million	\$2.60 million	None
State Portion of Costs after Rebates	\$27.4 million	\$27.40 million	None
Average Cost per Enrollee	\$1,246	\$1,245	None
FY2004			
Administrative Expenses	\$5.6 million	\$5.60 million	None
State Portion of Costs before Rebates	\$65.4 million	\$55.30 million	(\$10.1 million)
Estimated Rebates	\$9.5 million	\$7.90 million	\$1.55 million
State Portion of Costs after Rebates	\$55.9 million	\$47.40 million	(\$8.55 million)
Average Cost per Enrollee	\$1,395	\$1,182	(\$213)
FY2005			
Administrative Expenses	\$6.15 million	\$6.15 million	None
State Portion of Costs before Rebates	\$121.35 million	\$102.1 million	(\$19.20 million)
Estimated Rebates	\$20.1 million	\$15.55 million	\$4.55 million
State Portion of Costs after Rebates	\$101.2 million	\$86.55 million	(\$14.65 million)
Average Cost per Enrollee	\$1,511	\$1,292	(\$219)
FY2006			
Administrative Expenses	\$6.65 million	\$6.65 million	None
State Portion of Costs before Rebates	\$138.65 million	\$116.65 million	(\$22.0 million)
Estimated Rebates	\$29.00 million	\$22.40 million	\$6.6 million
State Portion of Costs after Rebates	\$109.65 million	\$94.25 million	(\$15.4 million)
Average Cost per Enrollee	\$1,589	\$1,365	(\$224)

ASSUMPTION (continued)

Oversight was not provided the Mercer, Inc assumptions since this information is proprietary. Accordingly, Oversight does not have the information required to recalculate the saving and cannot validate the DOH response. Oversight is presenting the cost savings as provided by the DOH.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Revenue</u> - Reduction in "Circuit Breaker"			
Property Tax Credits Claimed	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>
<u>Cost</u> - Reimbursement to Political Subdivisions*	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND***

\$0 **\$0** **(Unknown)**

*(Unknown) expected to exceed \$100,000 per year. Political subdivision reimbursement subject to appropriation, and does not include possible costs to fully fund Foundation Formula.

BLIND PENSION FUND

Revenue reduction

Reduced tax collections \$0 \$0 (\$0 to \$7,079)

**NET EFFECT ON BLIND PENSION
FUND**

\$0 **\$0** **(\$0 to \$7,079)**

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
SENIOR Rx FUND			
<u>Savings - Department of Health and Senior Services</u>			
Program Savings	<u>\$8,550,000</u>	<u>\$14,650,000</u>	<u>\$15,400,000</u>
ESTIMATED NET EFFECT ON SENIOR Rx FUND	<u>\$8,550,000</u>	<u>\$14,650,000</u>	<u>\$15,400,000</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
POLITICAL SUBDIVISIONS			
<u>Revenue</u>			
State reimbursements *	\$0	\$0	Unknown
<u>Revenue</u>			
Assessment fund enrollment charges *	\$0	\$0	Unknown
<u>Revenue reduction</u>			
Reduced tax collections *	\$0	\$0	(Unknown)
<u>Cost to counties</u>			
Additional administrative cost to county assessor and clerk.*	\$0	\$0	(Unknown)
<u>Cost to other political subdivisions</u>			
Additional administrative and reporting cost. *	\$0	\$0	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
* expected to exceed \$100,000; enrollment charges expected to exceed additional costs to county assessors.			

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal would create the Missouri Homestead Preservation Act:

- a. The assessed value of existing primary residential property owned by a person who is sixty-five years of age or older and has used the property as a homestead for at least five years would not increase by more than five percent for any tax-year reassessment cycle so long as that person resides on the property. Age and years of residence would be provided by affidavit of the owner, to the county assessor.
- b. Any person claiming a homestead exemption would pay an enrollment fee of fifteen dollars to be deposited into the assessment fund and used to pay the administrative costs of this proposal.
- c. A person claiming a homestead exemption would not be eligible to claim the Missouri property tax credit, and a person claiming the property tax credit would not be eligible to claim the homestead exemption.
- d. The state tax commission would promulgate rules and regulations to administer this section in accordance with the intent of the general assembly.
- e. The general assembly would be required to appropriate moneys from the state general revenue fund so that any political subdivision losing tax revenue as a result of this proposal would receive proportional restitution.
- f. This section would become effective January 1, 2004, and apply to all taxable years beginning after December 31, 2003. The proposal has an emergency clause.

DESCRIPTION (continued)

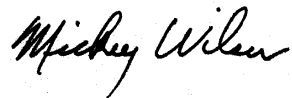
This proposal would also amend the rebate provisions for the Senior Rx program. Under current law, pharmaceutical manufacturers participating in the Missouri Senior Rx Program are required to pay a rebate of 15% on all drugs. This proposal would set the rebate at 15% for brand name drugs and 11% for generic drugs.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. The proposal contains an emergency clause.

This proposal could affect total state revenues.

SOURCES OF INFORMATION

Secretary of State
Cole County Assessor
Department of Revenue
Office of Administration
 Division of Budget and Planning
Department of Elementary and Secondary Education
State Tax Commission
City of Springfield
Department of Social Services
Department of Health and Senior Services



Mickey Wilson, CPA
Director
March 4, 2003